2007

Comment letters on Omnibus Statement on Standards for Accounting and Review Services

American Institute of Certified Public Accountants. Accounting and Review Services Committee

From: Brian Kobischka [mailto:BKobischka@mbkk.com]
Sent: Saturday, October 13, 2007 11:35 AM
To: Glynn, Michael
Subject: Omnibus Statement on Standards for Accounting and Review Services - Comment

Mr. Glynn:

I believe there is a "hole" in the standards which should be closed. I believe if there is a change in accountant and 1) the predecessor audited an entities financial statements in the immediately preceding year and 2) the successor was engaged to perform a review in the succeeding year, there should be a requirement for the successor to communicate with the predecessor and make the same or similar inquiries as required between predecessor and successor auditors.

The reason for my suggestion is that my firm had conducted an audit in year 1 (initial audit for a startup company). We were subsequently engaged to perform an audit for year 2. During the course of the year 2 audit, we discovered numerous errors in inventory valuation which created a material misstatement of the client's year 2 financial statements. The client refused to correct the errors so we resigned from the engagement. Subsequently, the company retained a different CPA firm to conduct a review instead of an audit. The successor never contacted us and the standards did not require him to do so. While I cannot confirm the matter, I suspect the successor either wasn't made aware of our findings and cause for resignation or he was advised of the matter and chose to avoid communication because he was not required to.

Thank you for your consideration.

Brian L. Kobischka, CPA

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THE OHIO SOCIETY
OF CERTIFIED
PUBLIC
ACCOUNTANTS

December 20, 2007

Mr. Michael Glynn, CPA
Technical Manager
Audit and Attest Standards
American Institute of CPAs

Dear Mr. Glynn:

The Accounting and Auditing Committee of The Ohio Society of CPAs (the Committee) has reviewed the "Omnibus Statement on Standards for Accounting and Review Services – 2008" and submits the following comments for consideration.

The Committee generally supports the issuance of this standard. We believe it clarifies several issues, and updates language appropriately. However, we do have a few suggestions for improvement or additional clarifications.

Proposed SSARS Paragraph 100.41, Management Representation Letter: The Committee recommends one terminology change to the proposal. Proposed SSARS paragraph 100.41, second sentence, indicates that "the accountant *should* obtain a management representation letter..." The Committee believes this should read "the accountant *must* obtain a management representation letter..." In light of the definitional standards reflected in the August 22, 2007, SSARS Exposure Draft *Defining Professional Requirements...*, the term "should" indicates a presumptively mandatory requirement, which allows the accountant to deviate from the requirement in certain circumstances. The use of "should" in connection with the representation letter is inconsistent with the unconditional requirements elsewhere in SSARS to obtain *written* representations (see Appendix F, for example.)

Proposed SSARS Paragraphs 100.69 - .73, Going Concern: The Committee feels that the proposed standard should clearly indicate that doubt about an entity's ability to continue as a going concern may exist, but that the accountant's compilation or review procedures may not bring such doubt to the accountant's attention. Additional clarification to Paragraph .69 could include a statement that the accountant has no responsibility to search for evidence or indication of an entity's ability to continue as a going concern. The Committee also feels that it would be useful to indicate somewhere within this section that, in a review engagement, such information or indication may come from the inquiry and analytical procedures performed, or from the management representation letter, in addition to any other source. Finally, in paragraph .73, it might be useful to repeat (or cross-reference) other existing guidance (such as Interpretations 6 and 11, and SSARS 15) in this section, particularly as it deals with prohibiting emphasis of a matter in disclosure-

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omitted statements, and withdrawal from such an engagement if the accountant determines that the financial statements are misleading in the absence of disclosure of the matter. (This would be similar to the guidance in the proposed paragraph .77 regarding subsequent events.)

Proposed SSARS Paragraphs 100.74 - .77, Subsequent Events: The Committee feels that the proposed standard should clearly indicate that subsequent events that have a material effects on the financial statements may occur, but that the accountant's compilation or review procedures may not bring such matters to the accountant's attention. Additional clarification to Paragraph .75 could include a statement that the accountant has no responsibility to search for evidence or indication of subsequent events. The Committee also feels that it would be useful to indicate somewhere within this section that, in a review engagement, such information or indication may come from the inquiry and analytical procedures performed, or from the management representation letter, in addition to any other source.

Proposed SSARS Paragraph 100.108, Exhibit of Guidance With Respect to Analytical Procedures: The Committee agrees that the previously-issued guidance with respect to analytical procedures should be incorporated into SSARS. However, in light of the definitional standards as reflected in the August 22, 2007, SSARS Exposure Draft *Defining Professional Requirements...,* the Committee feels that ARSC should consider whether the placement of this information is more appropriate as a SSARS Interpretation rather than an Exhibit within SSARS. It appears to us that the information in the analytical procedures guidance applies to specific circumstances rather than being generally explanatory regarding the requirements of the standard; if so, it more nearly fits the definition of an interpretive publication. We admit this is a very close judgment call, but we would submit it for your consideration.

We appreciate the work of the Accounting and Review Services Committee and the opportunity to comment on the draft. If you have any questions about the deliberations of the Committee, please contact me at 937-456-4113 or glenn@hooverandroberts.com.

Sincerely,

Glenn A. Roberts, CPA
Chair, Accounting and Auditing Committee
The Ohio Society of CPAs

From: John Cameron [jdcameron3@yahoo.com]
Sent: Friday, December 21, 2007 9:48 AM
To: Glynn, Michael
Cc: lwilliams@lcpa.org
Subject: Exposure Draft

Michael:

RE: Proposed Statement on Standards for Accounting and Review Services   Omnibus Statement on Standards for Accounting and Review Services-2008

On behalf of the Accounting and Auditing Standards Committee of the Society of Louisiana CPAs, I present to you our response: We believe that this proposed statement is good guidance and we agree with its issuance.

Respectfully,

John D. Cameron, CPA
Accounting and Auditing Standards Committee Member Society of Louisiana CPAs

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ILLINOIS CPA SOCIETY™

December 21, 2007

Michael P. Glynn
Technical Manager, Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036–8775

Dear Mr. Glynn:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee") is pleased to comment on the proposed Statement on Standards for Accounting and Review Services (SSARS), *Omnibus Statement on Standards for Accounting and Review Services- 2008*.

The Committee is a voluntary group of CPAs from public practice, industry, education, and government. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

Following are the Committee's comments regarding specific paragraphs of the exposure draft:

1. A general overall comment of the committee is we would like to see consistency in the use of referencing. We noted both references to the codification of the standards (e.g., AT section 301), and references to the SSARS themselves. We believe you should use one or the other.

2. A second general comment of the committee is that we would like to see separate guidance for compilation and reviews. There are many smaller firms, which provide only compilation attest services. We feel it may be confusing and burdensome to those firms to combine the compilation and review guidance in one guide.

3. Under Review of Financial Statements, paragraph 31 states "In circumstances where the accountant believes the financial statements are materially misstated, the accountant should perform the additional procedures deemed necessary to achieve limited assurance…" We would like to see some clarification as to what "additional procedures" would be in compliance with SSARS (e.g., inspection, recalculation, etc. and which "additional procedures" would not be in compliance with SSARS (e.g., confirmation, physical observation, etc.). Leaving this to the "accountant's judgment" may differ on a

case-by-case basis, allowing some accountants to deem audit procedures appropriate; which may or may not be acceptable in the view of the AICPA.

4. Under Review of Financial Statements, paragraph 32 lists the example of "examination of cancelled checks or bank images." We would suggest replacing "cancelled checks or bank images" with "source documents."

5. Under Amendment to AR section 100, Compilation and Review of Financial Statements-An Entity's Ability to Continue as a Going Concern and –Subsequent Events, paragraph 69 and paragraph 75 discuss for both reviews and compilations the accountant's responsibility to disclose going concern and subsequent events. We believe the guidance should include "In a review there is an inquiry responsibility, in a compilation there is not." We do not feel a simple "may" qualifier is sufficient to reinforce this difference, such as in your recommended language of "information <u>may</u> come to the accountant's attention."

6. Under Change in Engagement from Audit to Review or Compilation (or from Review to Compilation), paragraph 87 states "before the completion of the audit (review), be requested to change the engagement to a review or compilation (compilation) of financial statements," where Audit (Review) procedures were performed and <u>just before the completion</u> of the audit (review), the engagement changed. In addition to the proposed terminology change, some members of our committee believe that section AT 100.68 in the current literature should be amended to read as follows (changed wording is in bold):

"If the accountant concludes, based upon his or her professional judgment, that there is reasonable justification to change the engagement and if he or she complies with the standards applicable to the changed engagement, the accountant should issue an appropriate review or compilation report. ***The report should include reference to (a) the original engagement, (b) a brief description of the circumstances changing the engagement to a review or compilation, and (c) a statement that no opinion or other form of assurance was expressed on the financial statements with regard to the original engagement."***

7. Under Amendment to AR section 100, Compilation and Review of Financial Statements, paragraph 71, it states that "the accountant should perform any additional procedures deemed necessary to achieve limited assurance," and paragraph 72 states "the accountant may deem it necessary to perform additional procedures." We do not believe that the CPA should selectively increase the scope of his/her engagement, in this case when it relates to our evaluation of the going concern issue. It appears inconsistent to require "any additional procedures deemed necessary" when we are only providing limited assurance. It is likely that such a requirement will open the possibility that a user of the financial statements will ask why we didn't do "any additional procedures deemed necessary" in order to provide limited assurance on the collectability of accounts receivable, or the realization of inventory at its stated cost. If the requirement regarding evaluation of the going concern issue is to be expanded beyond inquiry and analytics, the

standard should be more specific as to the additional procedures that may be deemed necessary (and provide examples as to what additional procedures would be acceptable for "limited assurance" engagements), and also provide a stated rationale why the expansion of procedures in this area is considered necessary and unique.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Michael J. Pierce, CPA
Chair, Audit and Assurance Services Committee

APPENDIX A
ILLINOIS CPA SOCIETY
AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2007 – 2008

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee ordinarily operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
Large: (national & regional)	
Matthew L. Brenner, CPA	PricewaterhouseCoopers LLP
Jeffrey A. Gordon, CPA	KPMG LLP
Jon R. Hoffmeister, CPA	Clifton Gunderson LLP
Neil F. Finn, CPA	Deloitte & Touche LLP
William P. Graf, CPA	Deloitte & Touche LLP
James P. McClanahan, CPA	McGladrey & Pullen LLP
Gary W. Mills, CPA	Virchow Krause & Company, LLP
Michael J. Pierce, CPA	McGladrey & Pullen LLP
Kevin V. Wydra, CPA	Crowe Chizek and Company LLC
Medium: (more than 40 employees)	
Damitha N. Bandara, CPA	Blackman Kallick Bartelstein LLP
Sharon J. Gregor, CPA	Selden Fox, Ltd.
Stephen R. Panfil, CPA	Bansley & Kiener LLP
Jennifer E. Sanderson, CPA	Frost, Ruttenberg & Rothblatt, P.C.
Small: (less than 40 employees)	
Scott P. Bailey, CPA	Bronner Group LLC
Loren B. Kramer, CPA	Kramer Consulting Services, Inc.
Andrea L. Krueger, CPA	Corbett, Duncan & Hubly P.C.
Ludella Lewis, CPA	Ludella Lewis & Company
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.
Industry:	
James R. Adler, CPA	Adler Consulting Ltd.
Educator:	
Simon P. Petravick, CPA	Bradley University
Staff Representative:	
Paul E. Pierson, CPA	Illinois CPA Society

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December 10, 2007

Mr. Michael Glynn
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Via Email Sent to: mglynn@aicpa.org

Dear Mr. Glynn:

The Accounting Principles and Auditing Standards Committee, "The Committee", of the Florida Institute of Certified Public Accountants (FICPA) has reviewed and discussed the proposed Omnibus Statement on Standards for Accounting and Review Services – 2008.

The Committee has the following comments.

Appendix D Compilation of Financial Statements – Illustrative Engagement Letter

The Committee believes that the language in the fifth paragraph of this engagement letter beginning with the words "through inspection" and ending with "in an audit" should be deleted. The Committee feels that if all methods for testing accounting records are not mentioned then the reference to some specific methods is inappropriate.

Appendix E Review of Financial Statements – Illustrative Engagement Letter

After a careful review of this letter, the Committee suggests that the second sentence of the third paragraph would be strengthened by deleting the words "through inspection, observation, confirmation, the examination of cancelled checks or bank images." The Committee believes that the deleted material represents only select procedures rather than all procedures that create a difference between a review and audit.

Amendment to AR Section 100 – Dating of the Managerial Letter

The Committee believes that the accountant's review report should not be dated or released to the client until the accountant has physical possession of the management representation letter signed and dated by the client.

The Committee appreciates this opportunity to share its views and concerns and to comment on the Exposure Draft. Members of the Committee are available to discuss any questions you may have regarding this communication.

Very truly yours,

Yanick J. Michel, CPA, Chair
FICPA Accounting Principles and Auditing Standards Committee

Committee members coordinating the response:

Joel Baum, CPA
Edward C. LaBrecque, CPA

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December 28, 2007

Mr. Thomas A. Ratcliffe
Accounting and Review Services Committee
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Ratcliffe:

We appreciate this opportunity to comment on the Proposed Statement on Standards for Accounting and Review Services, *Omnibus — 2008* ("the proposed standard") as prepared by the Accounting and Review Services Committee of the American Institute of Public Accountants. Overall, we support the issuance of this proposed standard.

Based on our review of the proposed standard we have identified certain items for your consideration, as described below.

Amendment to AR Section 100, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100.72-100.73) — Replacement of Term Nonpublic Entity with Nonissuer

- **Proposed Paragraph .86**

We suggest that use of the term "board of directors" in this paragraph as well as throughout the Statements on Standards for Accounting and Review Services (SSARS) be considered. We recommend that the term "those charged with governance" rather than "board of directors" be used in the SSARS in order to promote greater consistency with the auditing standards.

Amendment to AR Section 100, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100.04, 100.06, .26-.27, .31, and 100.86-.88) — Clarification of Objectives of Compilation Engagement and Review Engagement

- **Proposed Paragraphs .12 and .32**

We recommend that in the second sentence of both proposed paragraphs .12 and .32, the term "the examination of cancelled checks or bank images" be replaced with "the examination of supporting documentation." We believe that providing a reference to specific audit procedures may result in confusion as to the level of work required for audit procedures not listed. In addition, we believe that the concept of not "obtaining corroborating evidential matter" in a review that was deleted from paragraph .31 should be included in proposed paragraph .32 as this concept represents a key difference in the performance of a review and an audit.

We also recommend that the conforming changes for recommendations noted above on proposed paragraphs .12 and .32 be applied to the illustrative engagement letters at paragraphs 100.100, 100.101, and 100.102.

Amendment to AR Section 100, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100.04) — Definitions of Third Parties and Management

- **Proposed Paragraph .04**

We recommend that the last sentence in the definition of management be deleted in order to be consistent with the definition of management provided in paragraph 3.b of AU Section 380, *The Auditor's Communication With Those Charged With Governance* (AU 380). In addition, we recommend a definition of "those charged with governance" be included in the proposed paragraph to be consistent with the comments listed above on proposed paragraph .86 and with AU 380.

Amendment to AR Section 100, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100.36 and .89) — Dating of the Management Representation Letter

- **Proposed Paragraph .41**

The last sentence of this paragraph states that, "The accountant need not be in physical receipt of the management representation letter as of the date of the accountant's review report provided management has acknowledged that they will sign the representation letter without modification." We do not believe that this sentence is necessary given the fact that the second sentence of the paragraph requires the accountant to obtain a management representation letter prior to the release of the review report and the fourth sentence requires that those representations be dated as of the date of the review report. In addition, deleting the first sentence will provide greater consistency to the current auditing standard surrounding the receipt of management representation letters as outlined in paragraphs .09 and .10 of AU Section 333, *Management Representations.*

- **Proposed Paragraph .103**

We recommend a footnote be added to the date of the illustrative representation letter repeating the requirements of proposed paragraph .41.

Amendment to AR Section 100, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100) — An Entity's Ability to Continue as a Going Concern

- **Proposed Paragraphs .70 and .72**

We suggest that the phrase "and the adequacy of the related disclosures" be inserted at the end of the last sentence of proposed paragraph .70 and that proposed paragraph .72 be deleted. We believe that the procedures referenced in proposed paragraph .70 are sufficient for a compilation engagement and therefore paragraph .72 is not required.

Proposed Paragraph .74

We recommend an additional paragraph be added to the section which references the paragraphs in AR Section 100 which discuss the consideration of whether to add an emphasis of a matter explanatory paragraph to the accountant's report. Conforming paragraph number changes should be made to the remainder of AR Section 100.

Amendment to AR Section 100, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2) — Analytical Procedures in a Review Engagement

- **Proposed Paragraph .108**

We believe that each of the examples in this section would benefit from the inclusion of additional documentation related to the determination of the reviewer's expectation. For example, the following excerpt is the first bullet of Example 1:

> "Increase in military spending by the government due to world events should result in an increase in sales. Expected increase is between 10 and 15 percent. The accountant expects a similar increase in accounts receivable."

In the above example it is difficult to determine why the expected increase is 10 to 15 percent as opposed to any other percentage increase. Additional documentation would clarify how the expectation was determined and enhance the working paper documentation. An example of additional documentation which might be relevant is a summary of discussions held with management regarding shipping levels and pricing trends.

- **Proposed Paragraph .108**

The following excerpt is from the balance sheet ratio analysis section of Example 1 under the category of "Days Sales in Inventory":

> "The increase of 11 days sales in inventory (205 days–194 days) represents a 6 percent increase. Since the increase is within the expected range, no further inquiry is necessary.

The 6 percent increase appears to be outside of the expected range established in bullet 3 of the Expectations section of Example 1.

We would be pleased to discuss the proposed standard and our comments with you at your convenience. If you have any questions, please contact Glenn Stastny at (203) 761-3285.

Sincerely,

/s/ Deloitte & Touche LLP

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December 28, 2007

Michael P. Glynn, CPA
Technical Manager, Audit and Attest Standards
American Institute of CPAs
1211 Avenue of the Americas
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Via e-mail: mglynn@aipca.org

Re: Exposure draft of a proposed Statement on Standards for Accounting and Review Services (SSARS), *Omnibus Statement on Standards for Accounting and Review Services – 2008.*

The Accounting and Auditing Procedures Committee (the Committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed Omnibus Statement on Standards for Accounting and Review Services (SSARS).

The Committee noted the following specific comments for the Accounting and Review Services Committee's consideration. Appendix C and D includes an illustrative engagement letter for compilations. The Committee felt that the reference in the third paragraph to the "examination of cancelled checks or bank images" was unusually detailed and raises a question regarding other procedures not specifically delineated. Furthermore, the Committee thought that the language in the fourth paragraph of Appendix D related to material departures that may exist and not be disclosed, and that the accountant "may wish to identify known departures," was somewhat vague.

Our Committee applauds the progress that the ARSC is making towards creating standalone guidance for reviews and compilations. We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

Edward Straley /ah

Edward J. Straley, CPA
Chair, PICPA Accounting and Auditing Procedures Committee

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January 12, 2008

Mr. Michael Glynn, CPA
Technical Manager
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: October 9, 2007 ARSC Exposure Draft (ED) of a Proposed Statement on Standards for Accounting and Review Services (SSARS), *Omnibus Statement on Standards for Accounting and Review Services - 2008*

Dear Mr. Glynn:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC approves the proposed amendments to the SSARS with the exception of:

- The objective of a review engagement;
- The new definition of management and the revised definition of third party; and
- The inclusion of an accounting definition of subsequent events.

In addition, TIC believes clarifications are needed in some of the new guidance and would prefer consistent effective dates for all of the amendments. Detailed comments are presented below.

SPECIFIC COMMENTS

SSARS 16 and the Omnibus ED

TIC believes that all "should" requirements in the ED should be reviewed to ensure conformity with SSARS 16, *Defining Professional Requirements in Statements on*

Standards for Accounting and Review Services. Now that SSARS 16 is issued and effective, the clarity of each "should" requirement in subsequent standards is especially important. TIC recommends that the use of "should" be limited to presumptively mandatory actions or procedures. In particular, re-numbered paragraph 86 (Communicating to Management and Others) under Item 1 of the ED should be re-phrased for clarity. The second sentence of the paragraph currently says:

> *The accountant should recognize, however, that in the following circumstances a duty to disclose to parties outside of the entity may exist:…* [Emphasis added]

In this citation, the "should' requirement relates to a cognitive behavior, not a procedure. Perhaps the requirement could be re-phrased to say:

> *However, the accountant should consider disclosure [*or *communication] to parties outside of the entity in the following circumstances:…* [Emphasis added to show proposed changes]

TIC realizes that a comprehensive review of professional requirements in the SSARS will be a project of its own; however, TIC believes any confusing references such as that above should be fixed as they are recognized.

TIC also recommends that "shoulds" be eliminated from AICPA-produced Other Compilation and Review Publications as defined in AR 50.07, except as necessary to cite a standard for the purposes of providing a foundation for explanatory guidance.

The Exhibit (paragraph .108), *Analytical Procedures in a Review Engagement*, includes several "shoulds," only one of which is linked to a specific paragraph in the professional requirements. TIC recommends that the use of "should" in the exhibits (or in any AICPA "Other Compilation and Review Publication,") be limited to either cited quotes or cited paragraphs from the professional standards for two reasons:

- To ensure that "should" requirements appearing in the exhibit are not mistakenly interpreted as nonauthoritative when intended to be authoritative; and
- To enhance the usefulness of the exhibit by directing the practitioner to the text of the requirements for further study.

TIC believes introducing this exhibit into the SSARS codification based on the above guidelines is the perfect opportunity to set the standard for future nonauthoritative

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publications issued by the AICPA.

The Limitations of Compilation and Review Engagements
In discussing the limitations of compilation and review engagements, new paragraphs .12, .32 and the related engagement letters in Appendices C through E list certain procedures not ordinarily performed in SSARS engagements. Among the procedures listed are "the examination of cancelled checks and bank images." TIC believes that citing a specific procedure as if it were a generic or major classification of audit procedures is out of place and breaks the logical flow of the discussion.

However, TIC understands that the examination of cancelled checks and bank images has been a disputed procedure in litigation concerning review engagements and that exempting it as a required compilation or review procedure within the SSARS would silence such disputes. TIC therefore agrees that specifically exempting examination of checks and bank images from procedures required in a compilation or review engagement would be appropriate but recommends the following revisions to appropriately categorize the procedure and improve the logical flow of the referenced paragraphs:

> <u>Paragraph .12 and Appendices C and D</u>
> *A compilation does not contemplate performing inquiry, analytical procedures, and other procedures performed in a review nor obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through <u>inspection (e.g., the examination of cancelled checks or bank images)</u>, observation, <u>confirmation and other procedures</u> ordinarily performed in an audit.*
>
> <u>Paragraph .32 and Appendix E</u>
> *A review does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; tests of accounting records by obtaining sufficient appropriate audit evidence through <u>inspection (e.g., the examination of cancelled checks or bank images)</u>, observation, <u>confirmation and other procedures</u> ordinarily performed in an audit.*
>
> [Underlined phrases illustrate proposed changes.]

TIC believes examination of cancelled checks and bank images is best described as an example of inspection, which is defined as "examining records or documents, whether internal or external, in paper form, electronic form, or other media" [Source: SAS 106, AU Section 326.27].

The Objective of a Review Engagement

TIC has several concerns with the objective of a review engagement as it relates to the performance and reporting requirements of a review. The objective in paragraph .28 of the ED states that:

> *The objective of a review engagement is to express limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with GAAP, or if applicable, with OCBOA.*

TIC believes the phrase "limited assurance" should not be used in the objective of a review engagement unless it is defined explicitly within the standard. Although "limited assurance" is a cited phrase within various paragraphs of the existing SSARS, practitioners have always had differing views as to what limited assurance means.

Objectives add structural formality to a standard and should be based on sound principles that are generally accepted and not subject to varying interpretations. The ASB's 2007 Discussion Paper, *Improving the Clarity of ASB Standards*, stated that the intended objective of an auditing standard is to provide "a conceptual framework for the application of professional judgment, and the obligation related to the objective." TIC believes the intent of an objective of a review (or compilation) engagement would be the same. Therefore, an objective that includes undefined terms will not serve as a sound conceptual framework for a review.

In addition, TIC believes the objective of a review, as stated in paragraph .28 of the ED, is inconsistent with the accountant's assertions in the review report, which appear to be unchanged. The required elements of the review report, as stated in paragraph .39 of the existing SSARS, do not include an expression of limited assurance. In fact, a review report simply states that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with GAAP or OCBOA. A review report also emphasizes that a review is not designed to express an opinion on the financial statements taken as a whole (AR 100.39e). The review report states what a review is not, rather than what "limited assurance" represents. The elements of the review report are more in line with paragraph .24 of the existing SSARS, which implies the accountant's objective is to "obtain a basis for communicating whether he or she is aware of

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any material modifications that should be made to the financial statements for them to be in conformity with [GAAP].”

TIC also noted that the performance requirements of a review include a different “limited assurance” phrase than the objective of a review:

- “express limited assurance” (per AR Section 100.26 in the existing SSARS and new paragraph .28 of the ED); and
- “achieve limited assurance” (per AR 100.25 in the existing SSARS and revised paragraph .31 in the ED).

TIC believes these phrases are not interchangeable. The concept of achieving partial (limited) assurance seems incongruous. Terms included in the objective should be used consistently throughout the standard. Such issues need to be corrected in the SSARS before the objective of a review is finalized.

TIC recommends that the Committee reconsider its decision to establish objectives at this time. The objectives are only one important part of ARSC’s clarity project. Clarification of the SSARS should be undertaken as a comprehensive project. Piecemeal clarification can result in internal inconsistencies within the standards in the short-run. In addition, the objective of a review could change within the next several years leading to an unnecessary cycle of issuing and reissuing the same standards to revise the stated objective. Full clarification of standards should be completed in connection with the re-codification of the SSARS into separate compilation and review sections. Since the stated objectives in the ED will not change practice, TIC believes removing them will not cause any adverse effect on the quality of the standard.

Alternatively, if the ARSC concludes that the objectives should be included in the SSARS at this time, the review objective should be revised. TIC recommends deleting references to “express limited assurance” and stating instead that the objective of a review is to perform “procedures to obtain a basis for communicating whether the accountant is aware of any material modifications that should be made to the financial statements…” This language would be more consistent with the review report and the existing text of the SSARS. Establishing definitions and other necessary changes in the text or the review report could be deferred to a later date, if necessary.

SSARS 8 Engagements and the Definition of Management/Third Party

TIC is concerned about the change in practice that will be required for SSARS 8 engagements if an outside board member must be defined as a third party, as provided in

Item 8 of the ED. If the ED is finalized as written, it will effectively prohibit SSARS 8 engagements for many small entities, such as not-for-profits and condominium associations. These organizations often lack personnel to perform management functions. As a result, board members assume the management role without assuming the management title.

For example, TIC members perform many SSARS 8 engagements for various associations and have traditionally distributed "plain paper" financial statements to the Boards of Directors. TIC believes board members of these organizations have many of the attributes of management since they are "knowledgeable about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of financial statements" and often establish policy and make decisions to ensure the policies are implemented. They also take responsibility for the financial statements. Therefore, many Boards qualify as valid recipients of SSARS 8 reports.

TIC therefore recommends that the SSARS include a definition of "those charged with governance" using language similar to AU Section 380, *The Auditor's Communication With Those Charged With Governance*, paragraph .03a. Adding this term would allow the SSARS to describe what it means to be a Board that assumes the role of management. The applicability of SSARS 8 reports should be expanded to also include "those charged with governance" who are knowledgeable about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of financial statements**.**

Scanning as an Analytical Review Procedure
TIC recommends that Appendix I, *Analytical Procedures the Accountant May Consider Performing When Conducting a Review of Financial Statements*, be amended to include scanning as a frequently used and very effective analytical technique. Scanning is mentioned in the auditing standards under AU Section 326.41 (SAS 106, *Audit* Evidence), as follows:

> *An analytical procedure might be **scanning**, which is the auditor's use of professional judgment to review accounting data to identify significant or unusual items and then to test those items. This includes the identification of anomalous individual items within account balances or other data through the reading or analysis of entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports. **Scanning** includes searching for large or unusual items in the accounting records (for example, nonstandard journal entries), as well as in transaction data (for example, suspense accounts, adjusting journal entries) for indications of misstatements that*

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have occurred.

An example of scanning as a review-level analytical procedure would be equally useful in the SSARS.

Subsequent Events
TIC has three issues with the new subsequent events section in the ED:

- The definition of subsequent events;
- The use of the phrase "issuance of financial statements" in the SSARS; and
- The clarity of the accountant's responsibility for compilations v. reviews.

TIC recommends the deletion of paragraph .74, which includes the definition of subsequent events. Since AU Section 560 is already considered nonauthoritative, "other accounting literature" under Generally Accepted Accounting Principles (GAAP), the definition should not be repeated in the SSARS, which would also be considered nonauthoritative in the GAAP hierarchy. In view of the FASB's plan to provide accounting standards for subsequent events in its new Accounting Codification, which will be exposed for comment shortly, TIC is concerned that the proposed accounting definition in the SSARS could conflict with the FASB proposal and thereby create confusion among practitioners.

Item 16 of the ED (new paragraphs .74 and .75) refers to the "issuance of financial statements" in describing the outer boundary for the accountant's consideration of subsequent events in a compilation and review engagement. TIC believes the phrase may not be appropriate in the context of a SSARS engagement and agrees with the view stated by the Private Company Financial Reporting Committee in its May, 16, 2007 letter to the FASB regarding the Board's pending project on accounting for subsequent events. The letter stated that:

> *The strict notion of "issuance date" of the financial statements in the private company environment has little or no meaning because companies do not have a typical, universally understood issue date. For example, it is not uncommon for a private company to complete all work on the GAAP financial statements (including receiving an auditor's opinion or an accountant's report from an independent public accountant) on one date, send the financial statements to one of its end users on a later date, and then send the financials to yet another user on an even later date.*

In addition, TIC does not believe that the ED clearly describes the differences in the accountant's responsibility for subsequent events in a compilation engagement v. a review engagement. TIC therefore proposes to split paragraph .75 into two separate paragraphs for guidance applicable to compilations and reviews, respectively, as follows:

> ***Compilations***
> *.75a In a compilation engagement, the accountant has no obligation to perform any procedures to determine if material subsequent events affecting the entity and its financial statements have occurred during the period between the balance sheet date and the report release date. However, if information comes to the accountant's attention that material subsequent events have occurred during this period, the accountant should request that management consider the possible effects on the compiled financial statements (including the adequacy of any related disclosures), in accordance with GAAP or OCBOA.*
>
> ***Reviews***
> *.75b In a review engagement, the accountant should consider making inquiries to the appropriate members of management concerning events subsequent to the date of the financial statements that could have a material effect on the financial statements, as discussed in the performance requirements for a review engagement in AR Section 100.31(a)(7). During the performance of this and other review procedures, evidence or information may come to the accountant's attention that a subsequent event that has a material effect on the reviewed financial statements has occurred. Subsequent events may also come to the accountant's attention after completion of the review procedures but before the release of the report. In either case, the accountant should request that management consider the possible effects on the financial statements (including the adequacy of any related disclosure), in accordance with GAAP or OCBOA.*

Management Representations
TIC noted an inconsistency between the requirement to obtain management representations in paragraph .29 of the ED and the presumptively mandatory ("should") requirement to obtain the management representation letter in paragraph .41. To be consistent with the existing requirement in AR Section 100.32 to obtain written representations, TIC recommends that the second sentence of paragraph .41 be changed to a mandatory requirement, as follows:

In order to document that those representations have been obtained, the accountant must obtain a management representation letter prior to the release of the accountant's review report. [Emphasis added to show proposed change.]

Statement of Retained Earnings

TIC noted that the illustrative representation letter in Appendix F [paragraph .103 in the ED] includes an edit to delete the statement of retained earnings from the list of financial statements covered by the review report. Statements of income and retained earnings are very common among TIC's constituency. TIC believes that examples used in illustrative letters should represent the most common statement titles used in practice. The deletion is also inconsistent with the financial statement titles listed in AR Section 100.04 and Appendix C, *Compilation of Financial Statements—Illustrative Engagement Letter* [paragraph .100 in the ED]. Therefore, TIC recommends that the statement of retained earnings be retained in Appendix F.

Going Concern Guidance

TIC believes the guidance beginning with paragraph .69 should be revised to state more clearly that accountants have no obligation to perform any procedures to determine if the entity has the ability to continue as a going concern and would only have a performance obligation if going concern uncertainties come to the accountant's attention. TIC proposes the following revisions to paragraph .69 of the ED for the committee's consideration:

.69 Accountants have no obligation to perform any procedures to determine if going concern uncertainties exist or if the entity has the ability to continue as a going concern. However, during the performance of compilation or review procedures, evidence or information may come to the accountant's attention indicating that there may be an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements. In those circumstances, the accountant should request that management consider the possible effects of the going concern uncertainty on the financial statements, including the need for related disclosure. [Emphasis added to show proposed changes]

Effective Date

TIC believes the varying effective dates within the ED will cause confusion among practitioners. Some amendments are effective upon issuance, while others are effective for compilations and reviews for periods ending on or after December 15, 2008, with early application permitted. TIC recommends that the amendments relating to nonissuers, supplementary information, and the definition of third party/management should become effective at the later date (with early application permitted). Deferral of the effective date for the definition of third party/management would be especially important given that the amendment will cause a significant change in practice for some accountants, unless TIC's proposed change noted above is adopted by the ARSC.

Editorial Corrections

Footnote 13 to paragraph 33 in the ED provides guidance when an entity is an issuer in the current period and was a nonissuer in the prior period. The footnote currently refers the reader to statements on auditing standards for guidance. TIC believes this reference should be changed to the Public Company Accounting Oversight Board (PCAOB) standards.

The footnote added to the last sentence of AR Section 100.02 erroneously refers to a "nonpublic entity." The sentence should be revised as follows:

> *AR section 300 permits an accountant who has reviewed the financial statements of a nonissuer to issue a compilation report on financial statements for the same period that are included in a prescribed form that calls for departure from generally accepted accounting principles.* [Emphasis added to show proposed change.]

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Stephen Bodine

Stephen Bodine, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees

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January 14, 2008

Michael P. Glynn
Audit and Attest Standards
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Via e-mail: mglynn@aicpa.org

Dear Mr. Glynn,

We appreciate the opportunity to comment on the proposed Statement on Standards for Accounting and Review Services (SSARS), *Omnibus Statement on Standards for Accounting and Review Services - 2008*, approved for exposure by the Accounting and Review Services Committee (ARSC) of the American Institute of Certified Public Accountants. We support the issuance of the proposal and respectfully submit our comments and recommendations in the accompanying appendix.

We would be pleased to discuss our comments with you. If you have any questions, please contact Ms. Karin A. French, Assistant National Managing Partner of Professional Standards, at (703) 847-7533.

Very truly yours,

Karin A. French

Grant Thornton LLP

Appendix

The following offers paragraph-level comments for your consideration. Unless otherwise indicated, suggested new language is shown in boldface and deletions are shown with double strike-through.

- **Paragraph .04 (replacement of term nonpublic entity with nonissuer) –** We believe the definition of the term nonissuer may be inconsistent with that provided by AICPA Professional Standards, *Part I - Applicability of AICPA Professional Standards and Public Company Accounting Oversight Board Standards* (Part I). Part I can be interpreted to state that nonissuers are entities not subject to the Sarbanes-Oxley Act of 2002 or the rules of the U.S. Securities and Exchange Commission (SEC). We believe this is different from saying entities that are not issuers, as defined by the SEC, are nonissuers.

- **Paragraph .12 (limitations of a compilation engagement), Paragraph .100 (Appendix C) and Paragraph .101 (Appendix D) –** We believe the second sentence in Paragraph .12 should be made into two sentences for ease of readability and to more clearly distinguish the differences between a review and an audit from a compilation. We also suggest this change in the fifth paragraph of the illustrative compilation engagement letters in Appendix C and Appendix D.

  We further recommend adding the word "ordinarily" in the second sentence of Paragraph .12 after the phrase "and other procedures performed in a review" to be consistent with the phrase "other procedures ordinarily performed in an audit."

- **Paragraph .29 (review performance requirements) –** This paragraph states the accountant must perform certain procedures as discussed in other referenced paragraphs. We concur that the accountant must perform analytical procedures, make inquiries and obtain representations. However, we suggest ARSC reconsider how it references other paragraphs to eliminate the potential confusion between unconditional requirements, presumptively mandatory requirements, and explanatory material.

- **Paragraph .36 (analytical procedures) –** To more clearly describe what the accountant is looking for that may indicate a material misstatement when performing analytical procedures, we suggest the following revision: "… items that appear to be ~~unusual~~ **different from expected results**, and."

- **Paragraph .41 (management representation letter) –** We urge ARSC to consider and align the requirements to obtain a representation letter with those being contemplated by the Auditing Standards Board (ASB). In this regard, we note the International Auditing and Assurance Standards Board believes that the date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report. This would also be appropriate for review engagements, as we believe the accountant's opinion cannot be expressed, and the report cannot be dated, before the date of the written representations. We further believe that the requirements, as currently written, do not appropriately reflect the accountant's responsibilities in this regard.

- **Paragraph .69 (an entity's ability to continue as a going concern) –** We understand the ASB is considering possible changes with regard to the auditor's responsibility concerning uncertainties related to the entity's ability to continue as a going concern; particularly, adopting a definition of a “reasonable period of time” to align with the accounting literature. We suggest that ARSC monitor this project and conform the related requirements and guidance.

- **Paragraph .108 (Analytical Procedures Exhibit) –** We believe the Exhibit may be confusing and may misdirect the accountant with regard to the performance and documentation of analytical procedures. We also believe such guidance does not belong as an Exhibit to the standard due to its detailed and prescriptive nature. If the guidance is to be retained, we suggest ARSC remove any direct imperatives and those that may be implied by the use of present tense. We also suggest including only one example emphasizing documentation of the accountant’s expectation, results and conclusions.